

QUARTERLY STATEMENT
OF THE
Volunteer State Health Plan, Inc.

of
Chattanooga
in the state of
Tennessee

TO THE
Insurance Department
OF THE STATE OF
Tennessee

FOR THE QUARTER ENDED
June 30, 2006

2006



QUARTERLY STATEMENT
AS OF June 30, 2006
OF THE CONDITION AND AFFAIRS OF THE
Volunteer State Health Plan, Inc.

NAIC Group Code	0000	0000	NAIC Company Code	Employer's ID Number	62-1656610
	(Current Period)	(Prior Period)			
Organized under the Laws of	Tennessee	State of Domicile or Port of Entry	Tennessee		
Country of Domicile	United States of America				
Licensed as business type:	Life, Accident & Health[] Dental Service Corporation[] Other[]	Property/Casualty[] Vision Service Corporation[] Is HMO Federally Qualified? Yes[] No[X] N/A[]	Hospital, Medical & Dental Service or Indemnity[] Health Maintenance Organization[X]		
Incorporated/Organized	07/11/1996	Commenced Business	11/01/1996		
Statutory Home Office	801 Pine Street	Chattanooga, TN 37402			
	(Street and Number)	(City, or Town, State and Zip Code)			
Main Administrative Office	801 Pine Street	Chattanooga, TN 37402	(423)535-5600		
	(Street and Number)	(City, or Town, State and Zip Code)	(Area Code) (Telephone Number)		
Mail Address	801 Pine Street	Chattanooga, TN 37402			
	(Street and Number or P.O. Box)	(City, or Town, State and Zip Code)	(Area Code) (Telephone Number)		
Primary Location of Books and Records	801 Pine Street	Chattanooga, TN 37402	(423)535-5600		
	(Street and Number)	(City, or Town, State and Zip Code)	(Area Code) (Telephone Number)		
Internet Website Address	www.bcbst.com				
Statutory Statement Contact	Dana Elaine Hull	(423)535-7919			
	(Name)	(Area Code)(Telephone Number)(Extension)			
	Dana_Hull@BCBST.com	(423)535-8331			
	(E-Mail Address)	(Fax Number)			
Policyowner Relations Contact	801 Pine Street	Chattanooga, TN 37402	(423)535-5600		
	(Street and Number)	(City, or Town, State and Zip Code)	(Area Code) (Telephone Number)(Extension)		

OFFICERS

Name	Title
Vicky Brown Gregg	Chairman
Ronald Ellis Harr	President & CEO
Sonya Kay Nelson	Vice President, Medicaid Administration
Sylvia Ann Sherrill	Vice President, Medicare Advantage #
Shelia Dian Clemons	Secretary
David Lee Deal	Treasurer & CFO
Harold Hoke Cantrell Jr.	Assistant Treasurer

OTHERS

DIRECTORS OR TRUSTEES

Ronald Ellis Harr
David Lee Deal
Charles Timothy Gary #

Vicky Brown Gregg
Steven Lee Coulter MD

State of Tennessee
County of Hamilton ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

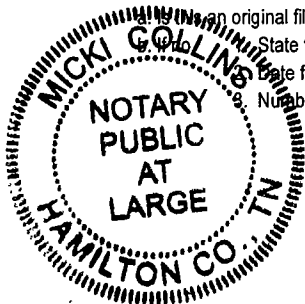
Ronald E. Harr
(Signature)
Ronald Ellis Harr
(Printed Name)
President & CEO
(Title)

Shelia Dian Clemons
(Signature)
Shelia Dian Clemons
(Printed Name)
Secretary
(Title)

David Lee Deal
(Signature)
David Lee Deal
(Printed Name)
Treasurer & CFO
(Title)

Subscribed and sworn to before me this
17th day of Aug, 2006

Micki Collins
(Notary Public Signature)



MY COMMISSION EXPIRES:
September 23, 2006

State the amendment number
Date filed
Number of pages attached

Yes[X] No[]

Statement of Actuarial Opinion

I, Norman John Zwitter, Manager of Valuation Actuary, am an employee of BlueCross BlueShield of Tennessee, Inc. (BCBST). I am a member of the American Academy of Actuaries. I meet the American Academy of Actuaries qualification standards for issuing an opinion on the unpaid claims liability of health insurers. I have examined the assumptions and methods used in determining loss reserves, actuarial liabilities, and related items as shown in the quarterly statement of Volunteer State Health Plan (the Company) as prepared for filing with the Tennessee Department of Insurance for the period ending June 30, 2006.

Item	Statement Reference		Amount
	Page – Line		
Claims Unpaid	3-1		\$ 0
Accrued medical incentive & bonus payments	3-2		\$ 0
Unpaid claims adjustment expenses	3-3		\$ 0
Aggregate policy reserves	3-4		\$ 0
Aggregate health claim reserves	3-7		\$ 0
Any other actuarial liabilities	3-21		\$ 0

My examination included such review of the assumptions and methods used and of the underlying basic records and/or summaries and such tests and calculations, as I considered necessary. In making my examination, I have relied on listings and summaries of claims and other relevant data, and upon representations regarding the consistency of paid claims data and un-paid claims reported as provided by Dana Elaine Hull, Manager of Subsidiary Accounting. I have also relied on the accuracy and consistency of the electronic systems and databases used as the basis of my analysis as provided by John Timothy Morgan, Senior Manager Information Management Finance.

My review did not include asset adequacy analysis, as such analysis is not in the scope of my assignment. I have not reviewed any of the Company's assets and I have not formed an opinion as to the validity or value. The following opinion rests on the assumption that the Company's June 30, 2006 statutory-basis unpaid claims liability is funded by valid assets that have suitably scheduled maturities and/or adequate liquidity to meet cash flow requirements.

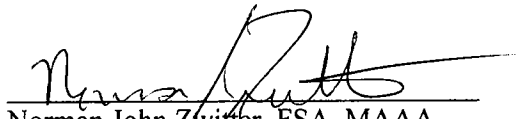
In my opinion, the amounts carried on the balance sheet on account of the items identified above for June 30, 2006:

- (a) Are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial standards,
- (b) Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared,
- (c) Meet the requirements of the insurance laws and regulations of the state of Tennessee,
- (d) Make a good and sufficient provision for all unpaid claims liabilities and other actuarial liabilities of the corporation under the terms of its contracts and agreements,
- (e) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end,
- (f) Include appropriate provision for all actuarial reserves and related actuarial items that ought to be established.

Actuarial methods, considerations, and analyses used in forming this opinion conform to the relevant Standards of Practice as promulgated from time to time by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

Considerable uncertainty and variability are inherent in estimating the unpaid claim liability. Accordingly, the subsequent development may not conform to the assumptions inherent in its determination and therefore may cause fluctuations in the ultimate amount of claims that are paid.

My review related only to the statutory-basis items identified herein, and I do not express an opinion on the Company's financial statements taken as a whole. This opinion has been prepared solely for the Board and the management of the Company, for filing with insurance regulatory agencies of states in which the Company is licensed, and for the Blue Cross and Blue Shield Association and is not intended for any other purpose.


Norman John Zwitter, FSA, MAAA
BlueCross BlueShield of Tennessee, Inc.

Volunteer State Health Plan, Inc.
Reliance Statement
2nd Quarter Statement (June 30, 2006)

I, Dana Elaine Hull, Manager, Subsidiary Accounting of BlueCross BlueShield of Tennessee, Inc. (801 Pine Street, Chattanooga, TN), hereby affirm that all accounting-related information prepared for and submitted to Norman John Zwitter, Manager of Valuation Actuary, was prepared under my direction and, to the best of my knowledge and belief, is substantially accurate and complete.

Dana Elaine Hull

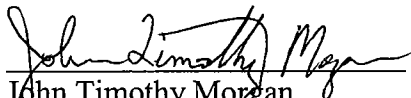
Dana Elaine Hull

8/9/06

Date

Volunteer State Health Plan, Inc.
Reliance Statement
2nd Quarter Statement (June 30, 2006)

I, John Timothy Morgan, Manager, IM Finance of BlueCross BlueShield of Tennessee, Inc. (801 Pine Street, Chattanooga, TN) hereby affirm that the data extracts from the electronic data warehouse and subsequent database structures provided to Norman John Zwitter, Manager of Valuation Actuary, as the basis of the reserve analysis were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.


John Timothy Morgan


Date

ASSETS

		Current Statement Date			4
		1	2	3	
		Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	December 31, Prior Year Net Admitted Assets
1.	Bonds	26,373,608		26,373,608	29,169,440
2.	Stocks:				
2.1	Preferred stocks				
2.2	Common stocks				
3.	Mortgage loans on real estate:				
3.1	First liens				
3.2	Other than first liens				
4.	Real estate:				
4.1	Properties occupied by the company (less \$..... encumbrances)				
4.2	Properties held for the production of income (less \$..... encumbrances)				
4.3	Properties held for sale (less \$..... encumbrances)				
5.	Cash (\$.....9,703,023), cash equivalents (\$.....) and short-term investments \$.....458,634)	10,161,657		10,161,657	9,263,410
6.	Contract loans (including \$..... premium notes)				
7.	Other invested assets				
8.	Receivables for securities				
9.	Aggregate write-ins for invested assets				
10.	Subtotals, cash and invested assets (Lines 1 to 9)	36,535,265		36,535,265	38,432,850
11.	Title plants less \$..... charged off (for Title insurers only)				
12.	Investment income due and accrued	362,968		362,968	431,284
13.	Premiums and considerations:				
13.1	Uncollected premiums and agents' balances in the course of collection				
13.2	Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$..... earned but unbilled premiums)				
13.3	Accrued retrospective premiums				
14.	Reinsurance:				
14.1	Amounts recoverable from reinsurers				
14.2	Funds held by or deposited with reinsured companies				
14.3	Other amounts receivable under reinsurance contracts				
15.	Amounts receivable relating to uninsured plans	5,613,608		5,613,608	2,234,897
16.1	Current federal and foreign income tax recoverable and interest thereon				
16.2	Net deferred tax asset	280,776	280,776		
17.	Guaranty funds receivable or on deposit				
18.	Electronic data processing equipment and software				
19.	Furniture and equipment, including health care delivery assets (\$.....)				
20.	Net adjustments in assets and liabilities due to foreign exchange rates				
21.	Receivables from parent, subsidiaries and affiliates				
22.	Health care (\$.....) and other amounts receivable				
23.	Aggregate write-ins for other than invested assets				
24.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	42,792,617	280,776	42,511,841	41,099,031
25.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26.	TOTAL (Lines 24 and 25)	42,792,617	280,776	42,511,841	41,099,031
DETAILS OF WRITE-INS					
0901.	.....			
0902.	.....			
0903.	.....			
0998.	Summary of remaining write-ins for Line 9 from overflow page				
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above)				
2301.	Exigency Post-Settlement Activity				
2302.	.....			
2303.	.....			
2398.	Summary of remaining write-ins for Line 23 from overflow page				
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)				

LIABILITIES, CAPITAL AND SURPLUS

		Current Period			Prior Year
		1 Covered	2 Uncovered	3 Total	4 Total
1.	Claims unpaid (less \$..... reinsurance ceded)				
2.	Accrued medical incentive pool and bonus amounts				
3.	Unpaid claims adjustment expenses				
4.	Aggregate health policy reserves				
5.	Aggregate life policy reserves				
6.	Property/casualty unearned premium reserve				
7.	Aggregate health claim reserves				
8.	Premiums received in advance				
9.	General expenses due or accrued	551,285		551,285	587,386
10.1	Current federal and foreign income tax payable and interest thereon (including \$..... on realized gains (losses))				
10.2	Net deferred tax liability				
11.	Ceded reinsurance premiums payable				
12.	Amounts withheld or retained for the account of others				
13.	Remittances and items not allocated	5,885		5,885	52,133
14.	Borrowed money (including \$..... current) and interest thereon \$..... (including \$..... current)				
15.	Amounts due to parent, subsidiaries and affiliates	6,243,649		6,243,649	4,542,079
16.	Payable for securities				
17.	Funds held under reinsurance treaties with (\$..... authorized reinsurers and \$..... unauthorized reinsurers)				
18.	Reinsurance in unauthorized companies				
19.	Net adjustments in assets and liabilities due to foreign exchange rates				
20.	Liability for amounts held under uninsured plans	1,373,591		1,373,591	1,649,454
21.	Aggregate write-ins for other liabilities (including \$..... current)	3,770,468		3,770,468	3,847,203
22.	Total liabilities (Lines 1 to 21)	11,944,878		11,944,878	10,678,255
23.	Aggregate write-ins for special surplus funds	X X X	X X X		
24.	Common capital stock	X X X	X X X	100,000	100,000
25.	Preferred capital stock	X X X	X X X		
26.	Gross paid in and contributed surplus	X X X	X X X		
27.	Surplus notes	X X X	X X X		
28.	Aggregate write-ins for other than special surplus funds	X X X	X X X	27,775,337	26,903,259
29.	Unassigned funds (surplus)	X X X	X X X	2,691,626	3,417,517
30.	Less treasury stock, at cost:				
30.1	..... shares common (value included in Line 24 \$.....)	X X X	X X X		
30.2	..... shares preferred (value included in Line 25 \$.....)	X X X	X X X		
31.	Total capital and surplus (Lines 23 to 29 minus Line 30)	X X X	X X X	30,566,963	30,420,776
32.	Total Liabilities, capital and surplus (Lines 22 and 31)	X X X	X X X	42,511,841	41,099,031
DETAILS OF WRITE-INS					
2101.	Due State of Tennessee	3,107,312		3,107,312	3,036,716
2102.	Stale Dated Checks	646,334		646,334	794,598
2103.	Exigency Post Settlement Activity	16,822		16,822	15,889
2198.	Summary of remaining write-ins for Line 21 from overflow page				
2199.	TOTALS (Lines 2101 through 2103 plus 2198) (Line 21 above)	3,770,468		3,770,468	3,847,203
2301.	.....	X X X	X X X		
2302.	.....	X X X	X X X		
2303.	.....	X X X	X X X		
2398.	Summary of remaining write-ins for Line 23 from overflow page	X X X	X X X		
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)	X X X	X X X		
2801.	Legally Required Reserves	X X X	X X X	27,775,337	26,903,259
2802.	.....	X X X	X X X		
2803.	.....	X X X	X X X		
2898.	Summary of remaining write-ins for Line 28 from overflow page	X X X	X X X		
2899.	TOTALS (Lines 2801 through 2803 plus 2898) (Line 28 above)	X X X	X X X	27,775,337	26,903,259

STATEMENT OF REVENUE AND EXPENSES

		Current Year To Date		Prior Year To Date
		1 Uncovered	2 Total	3 Total
1.	Member Months	X X X		
2.	Net premium income (including \$..... non-health premium income)	X X X	(70,590)	(64,013)
3.	Change in unearned premium reserves and reserves for rate credits	X X X		
4.	Fee-for-service (net of \$..... medical expenses)	X X X		
5.	Risk revenue	X X X		
6.	Aggregate write-ins for other health care related revenues	X X X		
7.	Aggregate write-ins for other non-health revenues	X X X		
8.	Total revenues (Lines 2 to 7)	X X X	(70,590)	(64,013)
Hospital and Medical:				
9.	Hospital/medical benefits		(260,750)	697,986
10.	Other professional services		(17,844)	(21,908)
11.	Outside referrals			
12.	Emergency room and out-of-area		(5,024)	23,862
13.	Prescription drugs			(488)
14.	Aggregate write-ins for other hospital and medical		138,261	104,580
15.	Incentive pool, withhold adjustments and bonus amounts			
16.	Subtotal (Lines 9 to 15)		(145,357)	804,032
Less:				
17.	Net reinsurance recoveries			
18.	Total hospital and medical (Lines 16 minus 17)		(145,357)	804,032
19.	Non-health claims (net)			
20.	Claims adjustment expenses, including \$.....71,987 cost containment expenses		354,063	173,500
21.	General administrative expenses		484,951	229,989
22.	Increase in reserves for life and accident and health contracts (including \$..... increase in reserves for life only)			
23.	Total underwriting deductions (Lines 18 through 22)		693,657	1,207,521
24.	Net underwriting gain or (loss) (Lines 8 minus 23)	X X X	(764,247)	(1,271,534)
25.	Net investment income earned		875,848	411,342
26.	Net realized capital gains (losses) less capital gains tax of \$.....		24,550	
27.	Net investment gains or (losses) (Lines 25 plus 26)		900,398	411,342
28.	Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....) (amount charged off \$.....)]			
29.	Aggregate write-ins for other income or expenses			
30.	Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	X X X	136,151	(860,192)
31.	Federal and foreign income taxes incurred	X X X	(10,036)	(324,709)
32.	Net income (loss) (Lines 30 minus 31)	X X X	146,187	(535,483)
DETAILS OF WRITE-INS				
0601.	Meharry, Critical Access & Essential Provider Payment Revenues	X X X	113,622,098	59,011,198
0602.	Meharry, Critical Access, and EPP Premium Taxes	X X X	(2,272,442)	(1,180,224)
0603.	Critical Access Payments	X X X	(5,269,656)	(2,310,430)
0698.	Summary of remaining write-ins for Line 6 from overflow page	X X X	(106,080,000)	(55,520,544)
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)	X X X		
0701.	.....	X X X		
0702.	.....	X X X		
0703.	.....	X X X		
0798.	Summary of remaining write-ins for Line 7 from overflow page	X X X		
0799.	TOTALS (Lines 0701 through 0703 plus 0798) (Line 7 above)	X X X		
1401.	Exigency Post-Settlement Activity		138,261	104,580
1402.	.....		
1403.	.....		
1498.	Summary of remaining write-ins for Line 14 from overflow page			
1499.	TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)		138,261	104,580
2901.	.....		
2902.	.....		
2903.	.....		
2998.	Summary of remaining write-ins for Line 29 from overflow page			
2999.	TOTALS (Lines 2901 through 2903 plus 2998) (Line 29 above)			

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1	2	3
		Current Year To Date	Prior Year To Date	Prior Year
CAPITAL & SURPLUS ACCOUNT				
33.	Capital and surplus prior reporting year	30,420,776	31,017,092	31,017,092
34.	Net income or (loss) from Line 32	146,187	(535,483)	(596,280)
35.	Change in valuation basis of aggregate policy and claim reserves			
36.	Change in net unrealized capital gains (losses) less capital gains tax of \$.....			
37.	Change in net unrealized foreign exchange capital gain or (loss)			
38.	Change in net deferred income tax	(57,689)	(23,642)	(35,650)
39.	Change in nonadmitted assets	57,689	23,642	35,614
40.	Change in unauthorized reinsurance			
41.	Change in treasury stock			
42.	Change in surplus notes			
43.	Cumulative effect of changes in accounting principles			
44.	Capital Changes:			
44.1	Paid in			
44.2	Transferred from surplus (Stock Dividend)			
44.3	Transferred to surplus			
45.	Surplus adjustments:			
45.1	Paid in			
45.2	Transferred to capital (Stock Dividend)			
45.3	Transferred from capital			
46.	Dividends to stockholders			
47.	Aggregate write-ins for gains or (losses) in surplus			
48.	Net change in capital and surplus (Lines 34 to 47)	146,187	(535,483)	(596,316)
49.	Capital and surplus end of reporting period (Line 33 plus 48)	30,566,963	30,481,609	30,420,776
DETAILS OF WRITE-INS				
4701.	.....	.....	.....	.....
4702.	.....	.....	.....	.....
4703.	.....	.....	.....	.....
4798.	Summary of remaining write-ins for Line 47 from overflow page .....	.....	.....	.....
4799.	TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above) .....	.....	.....	.....

Report #2A: VOLUNTEER STATE HEALTH PLAN, INC STATEMENT OF REVENUES AND EXPENSES			
	Current Year		Previous Year
	Current Period	Year-to-date Total	Total
MEMBER MONTHS	-	-	-
REVENUES:			
1. TennCare Capitation	(33,476)	(70,590)	(185,017)
2. Adverse Selection	-	-	-
3. Total TennCare Revenue (Lines 1 and 2)	(33,476)	(70,590)	(185,017)
4. Investment	546,318	900,398	1,144,402
5. Other Revenue (Provide Detail)	-	-	-
6. TOTAL REVENUES (Lines 1 to 5)	512,842	829,808	959,385
EXPENSES:			
Medical and Hospital Services:			
7. Capitated Physician Services	-	-	-
8. Fee-for Service Physician Services	(39)	(1,623)	226,675
9. Inpatient Hospital Services	(25)	(9,648)	391,656
10. Outpatient Services	(16)	(1,253)	17,794
11. Emergency Room Services	(3)	(111)	30,114
12. Mental Health Services	-	-	-
13. Dental Services	-	-	-
14. Vision Services	-	-	196
15. Pharmacy Services	-	-	-
16. Home Health Services	-	-	23,907
17. Chiropractic Services	-	-	-
18. Radiology Services	-	(26)	20,245
19. Laboratory Services	-	-	178
20. Durable Medical Services	(4)	13	(114,018)
21. Transportation Services	(4)	(288)	(49,935)
22. Outside Referrals	-	-	-
23. Medical Incentive Pool and Withhold Adjustments	-	-	-
24. Occupancy, Depreciation, and Amortization	-	-	-
25. Other Medical and Hospital Services (Provide Detail)	(55,937)	(28,356)	80,702
26. Subtotal (Lines 7 to 25)	(56,028)	(41,292)	627,514
LESS:			
27. Reinsurance Expenses Net of Recoveries	-	-	-
28. Copayments	-	(180)	(764)
29. Subrogation and Coordination of Benefits	41,449	104,245	341,231
30. Subtotal (Lines 27 to 29)	41,449	104,065	340,467
31. TOTAL MEDICAL AND HOSPITAL (Lines 26 minus line 30)	(97,477)	(145,357)	287,047
Administration:			
32. Compensation	334,898	539,890	1,058,805
33. Marketing	-	-	-
34. Interest Expense	-	-	-
35. Premium Tax Expense	(670)	(1,412)	(3,700)
36. Occupancy, Depreciation and Amortization	34,460	55,552	108,945
37. Other Administration (Provide Detail)	151,965	244,984	480,452
38. TOTAL ADMINISTRATION (Lines 32 to 37)	520,653	839,014	1,644,502
39. TOTAL EXPENSES (Lines 31 and 38)	423,176	693,657	1,931,549
40. Extraordinary Item	-	-	-
41. Provision for Federal Income Taxes	(11,116)	(10,036)	(375,884)
42. NET INCOME/(LOSS) (Line 6 less Lines 39,40 and 41))	100,782	146,187	(596,280)
DETAILS OF WRITE-INS			
0501. Meharry, Critical Access & EPP Revenues	31,394,050	113,622,098	119,556,588
0502. Meharry, Critical Access, and EPP Premium Taxes	(627,881)	(2,272,442)	(2,391,132)
0503. Critical Access Payments	(2,186,169)	(5,269,656)	(6,644,912)
0504. Meharry Payments	(3,580,000)	(6,080,000)	(10,520,544)
0505. Essential Provider Payments (EPP)	(25,000,000)	(100,000,000)	(100,000,000)
0599. TOTALS	-	-	-
2501. Exigency Post-Settlement Activity	65,489	138,261	173,243
2502. Out of Area Claims	-	5	971
2503. PT/OT/ST, Supplies, Prosthetics, etc.	(1)	(27)	(4,312)
2504. Bad Debt Expense	(121,425)	(166,595)	(89,200)
2599. TOTALS	(55,937)	(28,356)	80,702
3701. Equipment	64,122	103,372	202,729
3702. Legal Fees, Books, Board and Assoc. fees, Collection fees, etc.	33,730	54,376	106,639
3703. Postage/Telephone	22,417	36,138	70,873
3704. Auditing, Actuarial, and Other Consulting	14,597	23,532	46,150
3705. Outsourced Services	9,018	14,539	28,514
3706. Printing and Stationary	8,081	13,027	25,547
3799. TOTALS	151,965	244,984	480,452

Report #2A: TennCare Select Only			
	Current Year		Previous Year
	Current Period	Year-to-date Total	Total
MEMBER MONTHS	1,231,374	2,469,535	5,377,556
REVENUES:			
1. TennCare Capitation	249,487,503	493,641,149	1,050,171,295
2. Adverse Selection	-	-	-
3. Total TennCare Revenue (Lines 1 and 2)	249,487,503	493,641,149	1,050,171,295
4. Investment	-	-	-
5. Other Revenue (Provide Detail)	-	-	-
6. TOTAL REVENUES (Lines 1 to 5)	249,487,503	493,641,149	1,050,171,295
EXPENSES:			
Medical and Hospital Services:			
7. Capitated Physician Services	1,321,123	2,648,019	5,881,330
8. Fee-for Service Physician Services	66,322,105	132,827,640	292,178,650
9. Inpatient Hospital Services	56,777,381	114,852,129	269,679,415
10. Outpatient Services	32,672,187	65,329,433	153,246,545
11. Emergency Room Services	7,892,322	15,321,508	31,125,962
12. Mental Health Services	-	-	-
13. Dental Services	-	605	7,473
14. Vision Services	155,170	323,655	713,808
15. Pharmacy Services	-	-	(6,899)
16. Home Health Services	39,631,812	73,424,452	88,623,588
17. Chiropractic Services	-	-	-
18. Radiology Services	4,432,440	8,569,335	23,014,343
19. Laboratory Services	3,717,071	7,479,063	16,311,191
20. Durable Medical Services	3,875,557	8,171,416	22,919,935
21. Transportation Services	7,053,257	13,702,631	28,126,031
22. Outside Referrals	-	-	-
23. Medical Incentive Pool and Withhold Adjustments	-	-	-
24. Occupancy, Depreciation, and Amortization	-	-	-
25. Other Medical and Hospital Services (Provide Detail)	5,642,928	11,204,145	33,928,717
26. Subtotal (Lines 7 to 25)	229,493,353	453,854,031	965,750,089
LESS:			
27. Reinsurance Expenses Net of Recoveries			
28. Copayments	74,899	177,212	1,523,336
29. Subrogation and Coordination of Benefits	844,129	1,826,745	2,790,729
30. Subtotal (Lines 27 to 29)	919,028	2,003,957	4,314,065
31. TOTAL MEDICAL AND HOSPITAL (Lines 26 minus line 30)	228,574,325	451,850,074	961,436,024
Administration:			
32. Compensation	10,250,559	20,525,659	43,721,643
33. Marketing	-	-	-
34. Interest Expense	-	-	-
35. Premium Tax Expense	4,989,750	9,872,823	21,003,426
36. Occupancy, Depreciation and Amortization	1,054,737	2,111,996	4,498,755
37. Other Administration (Provide Detail)	4,651,368	9,313,871	19,839,444
38. TOTAL ADMINISTRATION (Lines 32 to 37)	20,946,414	41,824,349	89,063,268
39. TOTAL EXPENSES (Lines 31 and 38)	249,520,739	493,674,423	1,050,499,292
40. Extraordinary Item			
41. Provision for Federal Income Taxes	(11,633)	(11,646)	(114,799)
42. NET INCOME/(LOSS) (Line 6 less Lines 39,40 and 41))	(21,603)	(21,628)	(213,198)
DETAILS OF WRITE-INS			
2501. PT/OT/ST, Supplies, Prosthetics, etc.	3,923,124	7,679,109	25,308,739
2502. Out of Area Claims Expense	1,869,930	3,359,017	7,472,710
2503. Bad Debt Expense	(150,126)	166,019	1,147,268
2599. TOTALS	5,642,928	11,204,145	33,928,717
3701. Equipment Rental	1,962,669	3,930,038	8,371,360
3702. Legal Fees, Books, Board and Assoc. fees, Collection fees, etc.	1,032,397	2,067,265	4,403,472
3703. Postage/Telephone	686,137	1,373,916	2,926,573
3704. Auditing, Actuarial, and Other Consulting	446,787	894,643	1,905,676
3705. Outsourced Services	276,050	552,761	1,177,435
3706. Printing and Stationary	247,328	495,248	1,054,928
3799. TOTALS	4,651,368	9,313,871	19,839,444

Report #2A: Stabilization Plan Only			
	Current Year		Previous Year
	Current Period	Year-to-date Total	Total
MEMBER MONTHS	638,305	1,287,712	2,954,571
REVENUES:			
1. TennCare Capitation	106,157,069	216,283,152	520,031,931
2. Adverse Selection	-	-	-
3. Total TennCare Revenue (Lines 1 and 2)	106,157,069	216,283,152	520,031,931
4. Investment	-	-	-
5. Other Revenue (Provide Detail)	-	-	-
6. TOTAL REVENUES (Lines 1 to 5)	106,157,069	216,283,152	520,031,931
EXPENSES:			
Medical and Hospital Services:			
7. Capitated Physician Services	500,695	1,009,246	2,439,922
8. Fee-for Service Physician Services	36,280,926	73,587,901	172,124,088
9. Inpatient Hospital Services	21,853,868	44,892,746	116,696,753
10. Outpatient Services	14,142,653	29,036,614	75,017,580
11. Emergency Room Services	3,239,644	6,650,540	14,475,784
12. Mental Health Services	-	-	-
13. Dental Services	-	424	1,949
14. Vision Services	72,854	152,597	380,392
15. Pharmacy Services	-	-	(14,703)
16. Home Health Services	10,223,196	20,779,324	30,966,459
17. Chiropractic Services	-	-	-
18. Radiology Services	2,225,529	4,576,748	12,013,392
19. Laboratory Services	2,398,896	4,937,697	11,574,493
20. Durable Medical Services	2,198,707	4,484,182	13,486,001
21. Transportation Services	2,576,005	5,101,734	10,517,401
22. Outside Referrals	-	-	-
23. Medical Incentive Pool and Withhold Adjustments	-	-	-
24. Occupancy, Depreciation, and Amortization	-	-	-
25. Other Medical and Hospital Services (Provide Detail)	1,637,796	3,571,503	16,824,883
26. Subtotal (Lines 7 to 25)	97,350,769	198,781,256	476,504,394
LESS:			
27. Reinsurance Expenses Net of Recoveries			
28. Copayments	57,452	127,268	1,033,850
29. Subrogation and Coordination of Benefits	407,837	1,081,637	1,415,990
30. Subtotal (Lines 27 to 29)	465,289	1,208,905	2,449,840
31. TOTAL MEDICAL AND HOSPITAL (Lines 26 minus line 30)	96,885,480	197,572,351	474,054,554
Administration:			
32. Compensation	4,565,059	9,208,325	23,113,098
33. Marketing	-	-	-
34. Interest Expense	-	-	-
35. Premium Tax Expense	2,165,330	4,367,852	10,400,639
36. Occupancy, Depreciation and Amortization	469,725	947,495	2,378,231
37. Other Administration (Provide Detail)	2,071,475	4,178,435	10,487,965
38. TOTAL ADMINISTRATION (Lines 32 to 37)	9,271,589	18,702,107	46,379,933
39. TOTAL EXPENSES (Lines 31 and 38)	106,157,069	216,274,458	520,434,487
40. Extraordinary Item			
41. Provision for Federal Income Taxes	-	3,043	(140,895)
42. NET INCOME/(LOSS) (Line 6 less Lines 39,40 and 41))	-	5,651	(261,661)
DETAILS OF WRITE-INS			
2501. PT/OT/ST, Supplies, Prosthetics, etc.	1,261,893	2,664,179	13,247,731
2502. Out of Area Claims Expense	413,803	929,273	2,849,129
2503. Bad Debt Expense	(37,900)	(21,949)	728,023
2599. TOTALS	1,637,796	3,571,503	16,824,883
3701. Equipment Rental	874,070	1,763,114	4,425,453
3702. Legal Fees, Books, Board and Assoc. fees, Collection fees, etc.	459,775	927,425	2,327,861
3703. Postage/Telephone	305,569	616,373	1,547,110
3704. Auditing, Actuarial, and Other Consulting	198,975	401,359	1,007,420
3705. Outsourced Services	122,939	247,983	622,442
3706. Printing and Stationary	110,147	222,181	557,679
3799. TOTALS	2,071,475	4,178,435	10,487,965

CASH FLOW

		1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations			
1.	Premiums collected net of reinsurance	(70,590)	(185,017)
2.	Net investment income	1,030,379	1,374,034
3.	Miscellaneous income		
4.	Total (Lines 1 through 3)	959,789	1,189,017
5.	Benefit and loss related payments	(145,357)	287,047
6.	Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7.	Commissions, expenses paid and aggregate write-ins for deductions	4,529,689	3,168,260
8.	Dividends paid to policyholders		
9.	Federal and foreign income taxes paid (recovered) \$..... net of tax on capital gains (losses)	(10,036)	(375,848)
10.	Total (Lines 5 through 9)	4,374,296	3,079,459
11.	Net cash from operations (Line 4 minus Line 10)	(3,414,507)	(1,890,442)
Cash from Investments			
12.	Proceeds from investments sold, matured or repaid:		
12.1	Bonds	3,479,480	20,845,000
12.2	Stocks		
12.3	Mortgage loans		
12.4	Real estate		
12.5	Other invested assets		
12.6	Net gains or (losses) on cash, cash equivalents and short-term investments		
12.7	Miscellaneous proceeds		0
12.8	Total investment proceeds (Lines 12.1 to 12.7)	3,479,480	20,845,000
13.	Cost of investments acquired (long-term only):		
13.1	Bonds	745,313	23,791,775
13.2	Stocks		
13.3	Mortgage loans		
13.4	Real estate		
13.5	Other invested assets		
13.6	Miscellaneous applications		
13.7	Total investments acquired (Lines 13.1 to 13.6)	745,313	23,791,775
14.	Net increase (or decrease) in contract loans and premium notes		
15.	Net cash from investments (Line 12.8 minus Lines 13.7 and 14)	2,734,167	(2,946,775)
Cash from Financing and Miscellaneous Sources			
16.	Cash provided (applied):		
16.1	Surplus notes, capital notes		
16.2	Capital and paid in surplus, less treasury stock		
16.3	Borrowed funds		
16.4	Net deposits on deposit-type contracts and other insurance liabilities		
16.5	Dividends to stockholders		
16.6	Other cash provided (applied)	1,578,587	3,761,569
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	1,578,587	3,761,569
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18.	Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	898,247	(1,075,648)
19.	Cash, cash equivalents and short-term investments:		
19.1	Beginning of year	9,263,410	10,339,058
19.2	End of period (Line 18 plus Line 19.1)	10,161,657	9,263,410

Supplemental Disclosures of Cash Flow Information for Non-Cash Transactions:

Description		Amount 1	Amount 2
20.0001		

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

	1 Total	Comprehensive (Hospital & Medical)		4 Medicare Supplement	5 Vision Only	6 Dental Only	7 Federal Employees Health Benefit Plan	8 Title XVIII Medicare	9 Title XIX Medicaid	10 Stop Loss	11 Disability Income	12 Long-Term Care	13 Other
		2 Individual	3 Group										
Total Members at end of:													
1. Prior Year													
2. First Quarter													
3. Second Quarter													
4. Third Quarter													
5. Current Year													
6. Current Year Member Months													
Total Member Ambulatory Encounters for Period:													
7. Physician	(288)								(288)				
8. Non-Physician	(112)								(112)				
9. Total	(400)								(400)				
10. Hospital Patient Days Incurred	(21)								(21)				
11. Number of Inpatient Admissions	(4)								(4)				
12. Health Premiums Written	(70,590)								(70,590)				
13. Life Premiums Direct													
14. Property/Casualty Premiums Written													
15. Health Premiums Earned	(70,590)								(70,590)				
16. Property/Casualty Premiums Earned													
17. Amount Paid for Provision of Health Care Services	(145,357)								(145,357)				
18. Amount Incurred for Provision of Health Care Services	(145,357)								(145,357)				

CLAIMS UNPAID AND INCENTIVE POOL, WITHHOLD AND BONUS (Reported and Unreported)

Aging Analysis of Unpaid Claims						
1 Account	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 91 - 120 days	6 Over 120 Days	7 Total
<div>NONE</div>						
0899999 Accrued Medical Incentive Pool And Bonus Amounts

UNDERWRITING AND INVESTMENT EXHIBIT

ANALYSIS OF CLAIMS UNPAID-PRIOR YEAR-NET OF REINSURANCE

Line of Business		Claims Paid Year to Date		Liability End of Current Quarter		5 Claims Incurred in Prior Years (Columns 1+3)	6 Estimated Claim Reserve and Claim Liability Dec.31 of Prior Year
		1	2	3	4		
		On Claims Incurred Prior to January 1 of Current Year	On Claims Incurred During the Year	On Claims Unpaid Dec.31 of Prior Year	On Claims Incurred During the Year		
1.	Comprehensive (hospital & medical)						
2.	Medicare Supplement						
3.	Dental only						
4.	Vision only						
5.	Federal Employees Health Benefits Plan						
6.	Title XVIII - Medicare						
7.	Title XIX - Medicaid	(145,357)				(145,357)	
8.	Other health						
9.	Health subtotal (Lines 1 to 8)	(145,357)				(145,357)	
10.	Healthcare receivables (a)						
11.	Other non-health						
12.	Medical incentive pools and bonus amounts						
13.	TOTALS	(145,357)				(145,357)	

(a) Excludes \$. loans or advances to providers not yet expensed.

Notes to Financial Statement

1. Summary of Significant Accounting Policies

A. Accounting Practices

The financial statements of Volunteer State Health Plan, Inc. (VSHP) (the Company) are presented on the basis of accounting practices prescribed or permitted by the Tennessee Department of Commerce and Insurance (TDCI).

The TDCI, TennCare Division, recognizes only statutory accounting practices prescribed or permitted by the State of Tennessee for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Tennessee Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual, version effective January 1, 2006, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Tennessee. The Commissioner of Insurance has the right to permit specific practices that deviate from prescribed practices.

Since 2004, VSHP accepted the risk for uninsured claims overpayments for which the Company determined the State was not responsible. At the direction of the TDCI, TennCare Division, the Company recorded the uninsured claims overpayments as claims expense instead of reporting the net gain/(loss) on the general administrative expense line as required by NAIC SAP.

The Company, at the direction of the Commissioner of Insurance of the State of Tennessee, records premium and claims equivalents for the uninsured Exigency period (July 1, 2000 – June 30, 2001), instead of reporting the net gain/(loss) in the general administrative expense line of the current year column as required by NAIC SAP. If premium equivalents were not recorded, revenues would not be increased and claims would be decreased \$9,425 YTD. The Exigency agreement with the State allowed VSHP to retain 1/3 of any gain and the State to receive 2/3 of any gain. The State covers any claims losses. A cash settlement of \$55,681,476 was made on December 20, 2002 for the 2/3 calculated gain settlement plus all December 2001 through November 2002 activity. From 2003 through 2005, activity was settled monthly on a cash basis. For 2006, activity continues to be settled monthly on a cash basis.

At the request of the TDCI, TennCare Division, VSHP no longer reports for ASOs the receivables and associated payables to the State of Tennessee for pharmacy rebates, investment interest income, and premium taxes. The rationale behind the exclusion is that these assets have no economic benefit to VSHP.

B. Use of Estimates in the Preparation of the Financial Statements

No Change

C. Accounting Policy

No Change

2. Accounting Changes and Corrections of Errors

No Change

3. Business Combinations and Goodwill

No Change

4. Discontinued Operations

No Change

5. Investments

No Change

6. Joint Ventures, Partnerships and Limited Liability Companies

No Change

7. Investment Income

No Change

8. Derivative Instruments

No Change

Notes to Financial Statement

9. Income Taxes

A. The components of the net deferred tax asset recognized in the Company’s Assets, Liabilities, Surplus, and Other Funds are as follows:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
(1) Total of gross deferred tax assets (admitted and nonadmitted)	\$ 280,776	\$ 338,465
(2) Total of deferred tax liabilities	<u>0</u>	<u>0</u>
(3) Net deferred tax assets	280,776	338,465
(4) Deferred tax assets nonadmitted	<u>280,776</u>	<u>338,465</u>
(5) Net admitted deferred tax assets	\$ <u>0</u>	\$ <u>0</u>
(6) Increase (decrease) in nonadmitted asset	\$ <u>(57,689)</u>	\$ <u>(35,614)</u>

B. The change in net deferred income taxes is comprised of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>	<u>Change</u>
Total deferred tax assets (admitted and non-admitted)	\$ 280,776	\$ 338,465	\$ (57,689)
Total deferred tax liabilities	<u>0</u>	<u>0</u>	<u>0</u>
Net deferred tax assets (deferred assets less liabilities)	<u>\$ 280,776</u>	<u>\$ 338,465</u>	<u>(57,689)</u>
Tax effect of unrealized gains (losses)			<u>0</u>
Change in net deferred income tax			<u>\$ (57,689)</u>

C. The provision for federal income taxes incurred is different from that which would be obtained by applying the federal statutory income tax rate to income before taxes. The significant items causing this difference are as follows:

	<u>June 30, 2006</u>	<u>Effective Tax Rate</u>
Provision computed at federal statutory rate	\$ 47,653	35.0%
Change in net deferred income taxes	<u>(57,689)</u>	<u>(42.4)</u>
Federal income taxes incurred	<u>\$ (10,036)</u>	<u>(7.4)%</u>

D. (1) The Company’s federal income tax return is consolidated with the following entities:

BlueCross BlueShield of Tennessee, Inc.
Golden Security Insurance Company, Inc.
Group Insurance Services, Inc.
Southern Diversified Business Services, Inc.
RiverTrust Solutions, Inc.
Security Care, Inc.
Riverbend Government Benefits Administrator, Inc.
Shared Health, Inc.
Gordian Health Solutions, Inc.
Continental Health Promotion, Inc.
Eris Survey Systems, Inc.

(2) The method of tax allocation among the members of the affiliated group is subject to a written agreement, approved by the Board of Directors. Allocation is based upon a percentage calculation. Intercompany tax balances are settled monthly.

10. Information Concerning Parent, Subsidiaries and Affiliates

A. The Company is a wholly owned subsidiary of BlueCross BlueShield of Tennessee, Inc. (The Parent).

The Parent owns 100% of Southern Diversified Business Services, Inc. (**SDBS**). In addition, the Parent owns a 100% interest in GDRG, LLC (**GDRG**), and a 50% interest in Capstone Government Solutions, LLC. **GDRG**, formed in 2004, is a limited liability company whose primary purpose is to acquire, own, hold, maintain, operate, and develop real property.

Capstone Government Solutions, LLC (**CGS**) was incorporated in 2004 as a joint venture between the Parent and the Connecticut General Life Insurance Company, Inc., Medicare Administration (Cigna) for the purpose of bidding on and administering future Medicare fee-for-service contracts. The Parent transferred \$484,658 to Capstone during the first six months of 2006 and \$500,000 in 2005.

The Parent created Tennessee Health Foundation, Inc. (**THF**) in 2003. **THF** is a public benefit corporation that promotes charitable activities. The Parent appoints the board of directors of **THF**, which has been granted a 501(c)(3)-tax exemption by the Internal Revenue Service. The Parent transferred \$26,000,000 to **THF** in March 2006, and \$23,300,000 in March 2005.

SDBS owns 100% of the following for-profit corporations: Golden Security Insurance Company (**GSI**), Group Insurance Services, Inc. (**GIS**), Shared Health, Inc. (**SH**), and Gordian Health Solutions,

Notes to Financial Statement

Inc. (**GHS**). **GSI**, an inactive corporation, is licensed to provide health, term life, disability and other insurance coverage to its policyholders. **GIS** is an insurance broker. **SH** is a health information technology company. **GHS**, in conjunction with its wholly owned subsidiaries, Continental Health Promotion, Inc. (**CHP**) and ERIS Survey Systems, Inc. (**ESS**), mitigates the rising cost of health care by encouraging the formation of healthy lifestyle behaviors and providing case management for existing illnesses. **SDBS** also owns a 10% interest in USAbLe Life, Inc. (**USAbLe**). In the first six months of 2006, **SDBS** transferred \$5,000,000 to **SH** and \$184,261 to **GHS**. During 2005, **SDBS** transferred \$4,000,000 to **SH** and \$33,747,874 to **GHS**.

Southern Health Plan, Inc. (**SHP**), doing business as BlueCross BlueShield of Tennessee Community Trust, was created for the purpose of improving the quality of health care in Tennessee, primarily through contributions to other tax-exempt organizations. **SDBS** appoints the board of directors of **SHP**, which has been granted a 501(c)(4) tax exemption by the Internal Revenue Service.

Also owned by **SDBS**, but not yet capitalized and therefore not included on Schedule Y, are Security Care, Inc. (**SCI**), RiverTrust Solutions, Inc. (**RTS**) and Riverbend Government Benefits Administrator, Inc. (**RGBA**). **SCI** was incorporated in 2004 as a wholly owned subsidiary of **SDBS** to bid on an RFP to manage Medicare’s Chronic Care Improvement Program (**CCIP**). **RTS** was established in 2003 as a wholly owned subsidiary of **SDBS** in order to create an entity that could become a Qualified Independent Contractor (**QIC**) for the purpose of bidding on future Medicare appeals workloads. **RGBA** was incorporated in 2002 to perform services as a Medicare Administrative Contractor or subcontractor for the Centers for Medicare and Medicaid Services’ (**CMS**) pursuant to the Medicare Modernization Act of 2003.

- B. No Change
- C. The Company paid \$48,608,907 and \$109,481,915 in 2006 and 2005 to the Parent for services performed under the administrative services agreement.
- D. At June 30, 2006, the Company reported \$6,243,649 as amounts due to the Parent. At December 31, 2005, the Company reported \$4,542,079 as amounts due to the Parent. These intercompany payables and receivables are typically settled monthly. However, a balance may be carried over from month to month based on the cash flow needs of the various entities.
- E. No Change
- F. No Change
- G. No Change
- H. No Change
- I. No Change
- J. No Change
- K. No Change
- 11. Debt
No Change
- 12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans
No Change
- 13. Capital and Surplus, Shareholders’ Dividend Restrictions and Quasi-Reorganizations
No Change
- 14. Contingencies
No Change
- 15. Leases
No Change
- 16. Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations of Credit Risk
No Change

Notes to Financial Statement

17.

Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

C.

Wash Sales

Not Applicable
18.

Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

A.

ASO Plan:

TennCareSM Select, effective July 1, 2001, and the Stabilization Plan, effective July 1, 2002, are ASO arrangements with the State. The administrative fees received are equivalent to the expenses recorded. Per an Administrative Service Agreement, these expenses are paid to the Parent, who records any gain or (loss) on their books. TennCareSM Select is reported on the supplemental income statement (Report #2A, p. 5.2). The Stabilization Plan is reported on the supplemental income statement (Report #2A, p. 5.3). Cash and invested assets related to TennCareSM Select and the Stabilization Plan are reported in their appropriate categories on the balance sheet. Other assets related to TennCareSM Select and the Stabilization Plan are netted on p. 2, line 15, with the exception of those assets deemed to have no economic benefit to VSHP. Liabilities for the ASO plans are netted on page 3, line 20 in the category labeled “Liability for amounts held under uninsured accident and health plans”, excluding any ‘due to/from’ transactions occurring between the ASO, insured business, and the Parent.

The loss from operations from Administrative Services Only (ASO) uninsured plans and the uninsured portion of partially insured plans was as follows during 2006:

	(1)	(2)	(3)
	ASO	Uninsured	
	Uninsured	Portion of	Total
	<u>Plans</u>	<u>Plans</u>	<u>ASO</u>
a. Net reimbursement for Administrative Expenses (including Administrative Fees) in excess of actual expenses	\$19,296	0	\$19,296
b. Total Net Other Income or Expenses (including interest paid to or received from plans)	<u>(43,876)</u>	<u>0</u>	<u>(43,876)</u>
c. Net Gain or (Loss) from operations	<u><u>\$(24,580)</u></u>	<u><u>0</u></u>	<u><u>\$(24,580)</u></u>
d. Total Claims Payment Volume	\$650,088,384		\$650,088,384

B.

ASC Plan

The Company operated under an Exigency agreement with the State for the period July 1, 2000 through June 30, 2001. At the direction of the TDCI, premium and claims equivalents are disseminated throughout the NAIC filing.

C.

Medicare or Other Similarly Structured Cost Based Reimbursement Contract:

Not Applicable
19.

Direct Premium Written/Produced by Managing General Agents/Third Party Administrators.

No Change
20.

September 11 Events

No Change
21.

Other Items

No Change
22.

Events Subsequent

No Change
23.

Reinsurance

No Change

Notes to Financial Statement

24.

Retrospectively Rated Contracts

No Change
25.

Change in Incurred Claims and Claim Adjustment Expenses

No Change
26.

Intercompany Pooling Arrangements

No Change
27.

Structured Settlements

No Change
28.

Health Care Receivables

No Change
29.

Participating Policies

No Change
30.

Premium Deficiency Reserve

No Change
31.

Anticipated Salvage and Subrogation

No Change

GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since the prior year end unless otherwise noted)

PART 1 - COMMON INTERROGATORIES
GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act?

Yes[] No[X]
- 1.2 If yes, has the report been filed with the domiciliary state?

Yes[] No[] N/A[X]
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes[] No[X]
- 2.2 If yes, date of change:

.....
3. Have there been any substantial changes in the organizational chart since the prior quarter end?
If yes, complete the Schedule Y - Part 1 - organizational chart.

Yes[] No[X]
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes[] No[X]
- 4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Company Code	State of Domicile
.....

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved?
If yes, attach an explanation.

Yes[] No[] N/A[X]
- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made.

.....12/31/2004.....
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

.....12/31/2004.....
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

.....09/08/2005.....
- 6.4 By what department or departments?
Tennessee Department of Commerce and Insurance
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes[] No[X]
- 7.2 If yes, give full information
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes[] No[X]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms?

Yes[] No[X]
- 8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	SEC
..... Yes[] No[X] .	. Yes[] No[X] .	. Yes[] No[X] .	. Yes[] No[X] .	. Yes[] No[X] .

FINANCIAL

- 9.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes[] No[X]
- 9.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount:

\$.....

INVESTMENT

- 10.1 Has there been any change in the reporting entity's own preferred or common stock?

Yes[] No[X]
- 10.2 If yes, explain:
- 11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.)

Yes[] No[X]
- 11.2 If yes, give full and complete information relating thereto:
12. Amount of real estate and mortgages held in other invested assets in Schedule BA:

\$.....
13. Amount of real estate and mortgages held in short-term investments:

\$.....
- 14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates?

Yes[] No[X]
- 14.2 If yes, please complete the following:

GENERAL INTERROGATORIES (Continued)

		1	2
		Prior Year-End Book/Adjusted Carrying Value	Current Quarter Statement Value
14.21	Bonds		
14.22	Preferred Stock		
14.23	Common Stock		
14.24	Short-Term Investments		
14.25	Mortgages Loans on Real Estate		
14.26	All Other		
14.27	Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26)		
14.28	Total Investment in Parent included in Lines 14.21 to 14.26 above		

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB?

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?
If no, attach a description with this statement.

Yes[] No[X]
Yes[] No[] N/A[X]

16. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 - General, Section IV. H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

Yes[X] No[]

1	2
Name of Custodian(s)	Custodian Address
Regions Morgan Keegan Trust	1100 Ridgeway Loop Ste 100 Memphis, TN 38120

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1	2	3
Name(s)	Location(s)	Complete Explanation(s)
.....

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter?

16.4 If yes, give full and complete information relating thereto:

Yes[] No[X]

1	2	3	4
Old Custodian	New Custodian	Date of Change	Reason
.....

16.5 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1	2	3
Central Registration Depository	Name(s)	Address
4161	Regions Morgan Keegan Trust	1100 Ridgeway Loop Ste 100 Memphis, TN 38120

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

17.2 If no, list exceptions:

Yes[X] No[]

STATEMENT AS OF **June 30, 2006** OF THE **Volunteer State Health Plan, Inc.**

SCHEDULE A - VERIFICATION

Real Estate		1	2
		Year To Date	Prior Year Ended December 31
1.	Book/adjusted carrying value, December 31 of prior year		
2.	Increase (decrease) by adjustment		
3.	Cost of acquired		
4.	Cost of additions to and permanent improvements		
5.	Total profit (loss) on sales		
6.	Increase (decrease) by foreign exchange adjustment		
7.	Amount received on sales		
8.	Book/adjusted carrying value at end of current period		
9.	Total valuation allowance		
10.	Subtotal (Lines 8 plus 9)		
11.	Total nonadmitted amounts		
12.	Statement value, current period (Page 2, real estate lines, Net Admitted Assets column)		

SCHEDULE B - VERIFICATION

Mortgage Loans

		1	2
		Year To Date	Prior Year Ended December 31
1.	Book value/recorded investment excluding accrued interest on mortgages owned, December 31 of prior year		
2.	Amount loaned during period:		
2.1	Actual cost at time of acquisitions		
2.2	Additional investment made after acquisitions		
3.	Accrual of discount and mortgage interest points and commitment fees		
4.	Increase (decrease) by adjustment		
5.	Total profit (loss) on sale		
6.	Amounts paid on account or in full during the period		
7.	Amortization of premium		
8.	Increase (decrease) by foreign exchange adjustment		
9.	Book value/recorded investment excluding accrued interest on mortgages owned at end of current period		
10.	Total valuation allowance		
11.	Subtotal (Lines 9 plus 10)		
12.	Total nonadmitted amounts		
13.	Statement value of mortgages owned at end of current period (Page 2, mortgage lines, Net Admitted Assets column)		

SCHEDULE BA - VERIFICATION

Other Invested Assets

		1	2
Description		Year To Date	Prior Year Ended December 31
1.	Book/adjusted carrying value of long-term invested assets owned, December 31 of prior year		
2.	Cost of acquisitions during period:		
2.1	Actual cost at time of acquisitions		
2.2	Additional investment made after acquisitions		
3.	Accrual of discount		
4.	Increase (decrease) by adjustment		
5.	Total profit (loss) on sale		
6.	Amounts paid on account or in full during the period		
7.	Amortization of premium		
8.	Increase (decrease) by foreign exchange adjustment		
9.	Book/adjusted carrying value of long-term invested assets at end of current period		
10.	Total valuation allowance		
11.	Subtotal (Lines 9 plus 10)		
12.	Total nonadmitted amounts		
13.	Statement value of long-term invested assets at end of current period (Page 2, Line 7, Column 3)		

SCHEDULE D - VERIFICATION

Bonds and Stocks

		1	2
		Year To Date	Prior Year Ended December 31
1.	Book/adjusted carrying value of bonds and stocks, December 31 of prior year	29,169,440	26,654,103
2.	Cost of bonds and stocks acquired	745,313	23,791,775
3.	Accrual of discount	6,668	1,735
4.	Increase (decrease) by adjustment		
5.	Increase (decrease) by foreign exchange adjustment		
6.	Total profit (loss) on disposal	24,550	(26,167)
7.	Consideration for bonds and stocks disposed of	3,479,480	20,845,000
8.	Amortization of premium	92,883	407,006
9.	Book/adjusted carrying value, current period	26,373,608	29,169,440
10.	Total valuation allowance		
11.	Subtotal (Lines 9 plus 10)	26,373,608	29,169,440
12.	Total nonadmitted amounts		
13.	Statement value	26,373,608	29,169,440

SCHEDULE D - PART 1B
Showing the Acquisitions, Dispositions and Non-Trading Activity
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1	2	3	4	5	6	7	8
	Book/Adjusted Carrying Value Beginning of Current Quarter	Acquisitions During Current Quarter	Dispositions During Current Quarter	Non-Trading Activity During Current Quarter	Book/Adjusted Carrying Value End of First Quarter	Book/Adjusted Carrying Value End of Second Quarter	Book/Adjusted Carrying Value End of Third Quarter	Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1	80,561,666	55,479,250	109,167,044	(41,630)	80,561,666	26,832,242		56,980,508
2. Class 2								
3. Class 3								
4. Class 4								
5. Class 5								
6. Class 6								
7. TOTAL Bonds	80,561,666	55,479,250	109,167,044	(41,630)	80,561,666	26,832,242		56,980,508
PREFERRED STOCK								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. TOTAL Preferred Stock								
15. TOTAL Bonds & Preferred Stock	80,561,666	55,479,250	109,167,044	(41,630)	80,561,666	26,832,242		56,980,508

SCHEDULE DA - PART 1

Short - Term Investments Owned End of Current Quarter

	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Interest Collected Year To Date	Paid for Accrued Interest Year To Date
8299999. TOTALS	458,634	X X X	458,634	1,028,715	

SCHEDULE DA - PART 2 - Verification

Short-Term Investments Owned

		1	2
		Year To Date	Prior Year Ended December 31
1.	Book/adjusted carrying value, December 31 of prior year	27,811,068	49,147,408
2.	Cost of short-term investments acquired	415,090,141	1,690,533,329
3.	Increase (decrease) by adjustment		
4.	Increase (decrease) by foreign exchange adjustment		
5.	Total profit (loss) on disposal of short-term investments		
6.	Consideration received on disposal of short-term investments	442,442,575	1,711,869,669
7.	Book/adjusted carrying value, current period	458,634	27,811,068
8.	Total valuation allowance		
9.	Subtotals (Lines 7 plus 8)	458,634	27,811,068
10.	Total nonadmitted amounts		
11.	Statement value (Lines 9 minus 10)	458,634	27,811,068
12.	Income collected during period	1,028,715	1,313,035
13.	Income earned during period	942,584	1,267,367

SCHEDULE DB - PART F - SECTION 1
Summary of Replicated (Synthetic) Assets Open

Replicated (Synthetic) Asset					Components of the Replicated (Synthetic) Asset							
1 Replication RSAT Number	2 Description	3 NAIC Designation or Other Description	4 Statement Value	5 Fair Value	Derivative Instruments Open		Cash Instrument(s) Held					
					6	7	8	9	10	11	12	
					Description	Fair Value	CUSIP	Description	Statement Value	Fair Value	NAIC Designation or Other Description	
					N O N E							
9999999 Totals	X X X	X X X	X X X	X X X

SCHEDULE DB - PART F - SECTION 2
Reconciliation of Replicated (Synthetic) Assets Open

		First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year-To-Date	
		1	2	3	4	5	6	7	8	9	10
		Number of Positions	Total Replicated (Synthetic) Assets Statement Value	Number of Positions	Total Replicated (Synthetic) Assets Statement Value	Number of Positions	Total Replicated (Synthetic) Assets Statement Value	Number of Positions	Total Replicated (Synthetic) Assets Statement Value	Number of Positions	Total Replicated (Synthetic) Assets Statement Value
1.	Beginning Inventory										
2.	Add: Opened or Acquired Transactions										
3.	Add: Increases in Replicated Asset Statement Value	X X X		X		X X X		X X X		X X X	
4.	Less: Closed or Disposed of Transactions										
5.	Less: Positions Disposed of for Failing Effectiveness Criteria										
6.	Less: Decreases in Replicated (Synthetic) Asset Statement Value	X X X		X X X		X X X		X X X		X X X	
7.	Ending Inventory										

NONE

SCHEDULE S - CEDED REINSURANCE
Showing all new reinsurers-Current Year to Date

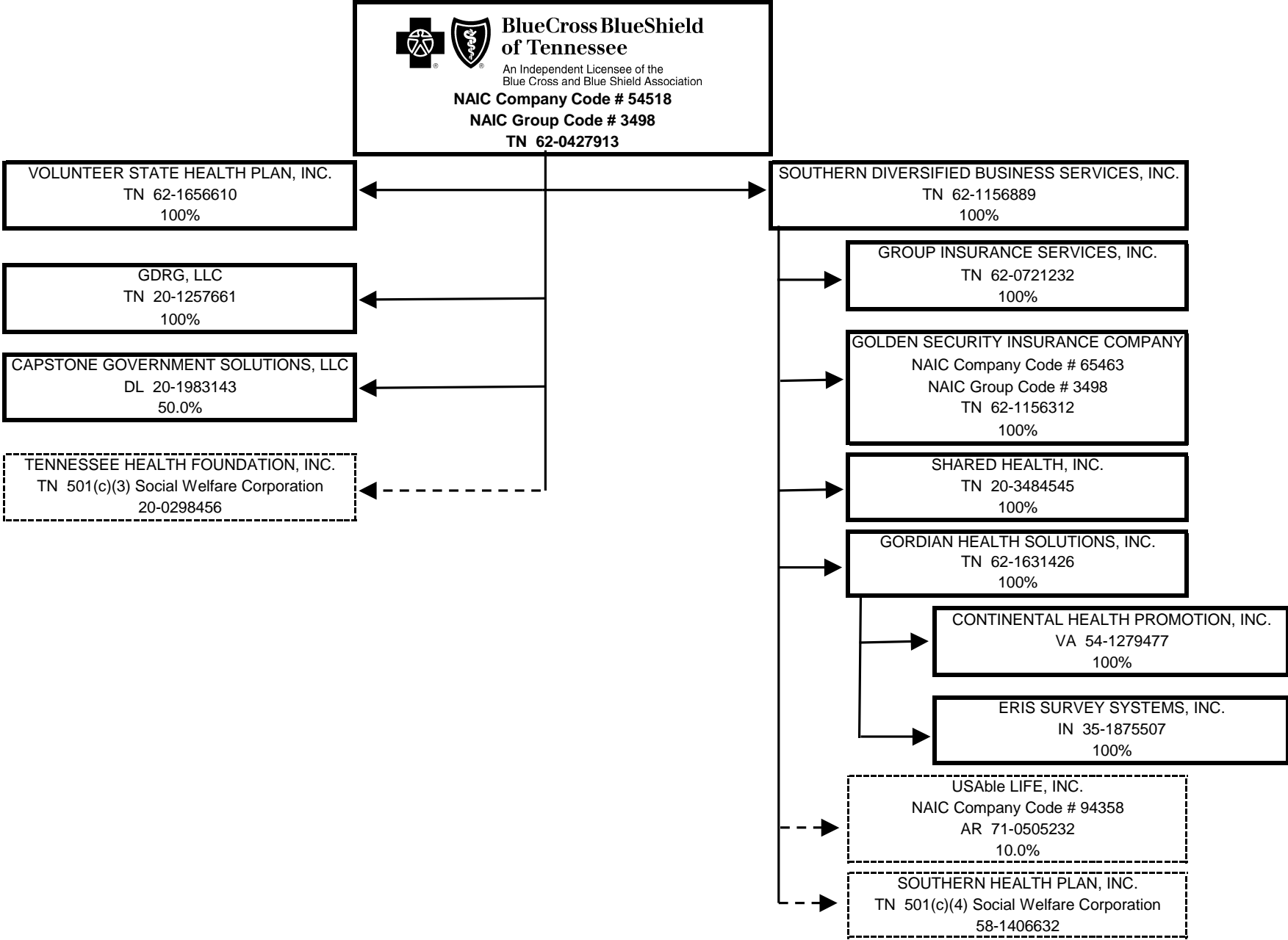
1 NAIC Company Code	2 Federal ID Number	3 Name of Reinsurer	4 Location	5 Is Insurer Authorized? (Yes or No)
		<div>NONE</div>		

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS
Allocated by States and Territories

		1 Guaranty Fund (Yes or No)	2 Is Insurer Licensed (Yes or No)	Direct Business Only Year-to-Date					
				3 Accident and Health Premiums	4 Medicare Title XVIII	5 Medicaid Title XIX	6 Federal Employees Health Benefits Program Premiums	7 Life and Annuity Premiums and Deposit-Type Contract Funds	8 Property/ Casualty Premiums
State, Etc.									
1.	Alabama (AL)	No ..	No ..						
2.	Alaska (AK)	No ..	No ..						
3.	Arizona (AZ)	No ..	No ..						
4.	Arkansas (AR)	No ..	No ..						
5.	California (CA)	No ..	No ..						
6.	Colorado (CO)	No ..	No ..						
7.	Connecticut (CT)	No ..	No ..						
8.	Delaware (DE)	No ..	No ..						
9.	District of Columbia (DC)	No ..	No ..						
10.	Florida (FL)	No ..	No ..						
11.	Georgia (GA)	No ..	No ..						
12.	Hawaii (HI)	No ..	No ..						
13.	Idaho (ID)	No ..	No ..						
14.	Illinois (IL)	No ..	No ..						
15.	Indiana (IN)	No ..	No ..						
16.	Iowa (IA)	No ..	No ..						
17.	Kansas (KS)	No ..	No ..						
18.	Kentucky (KY)	No ..	No ..						
19.	Louisiana (LA)	No ..	No ..						
20.	Maine (ME)	No ..	No ..						
21.	Maryland (MD)	No ..	No ..						
22.	Massachusetts (MA)	No ..	No ..						
23.	Michigan (MI)	No ..	No ..						
24.	Minnesota (MN)	No ..	No ..						
25.	Mississippi (MS)	No ..	No ..						
26.	Missouri (MO)	No ..	No ..						
27.	Montana (MT)	No ..	No ..						
28.	Nebraska (NE)	No ..	No ..						
29.	Nevada (NV)	No ..	No ..						
30.	New Hampshire (NH)	No ..	No ..						
31.	New Jersey (NJ)	No ..	No ..						
32.	New Mexico (NM)	No ..	No ..						
33.	New York (NY)	No ..	No ..						
34.	North Carolina (NC)	No ..	No ..						
35.	North Dakota (ND)	No ..	No ..						
36.	Ohio (OH)	No ..	No ..						
37.	Oklahoma (OK)	No ..	No ..						
38.	Oregon (OR)	No ..	No ..						
39.	Pennsylvania (PA)	No ..	No ..						
40.	Rhode Island (RI)	No ..	No ..						
41.	South Carolina (SC)	No ..	No ..						
42.	South Dakota (SD)	No ..	No ..						
43.	Tennessee (TN)	No ..	Yes ..			(70,590)			
44.	Texas (TX)	No ..	No ..						
45.	Utah (UT)	No ..	No ..						
46.	Vermont (VT)	No ..	No ..						
47.	Virginia (VA)	No ..	No ..						
48.	Washington (WA)	No ..	No ..						
49.	West Virginia (WV)	No ..	No ..						
50.	Wisconsin (WI)	No ..	No ..						
51.	Wyoming (WY)	No ..	No ..						
52.	American Samoa (AS)	No ..	No ..						
53.	Guam (GU)	No ..	No ..						
54.	Puerto Rico (PR)	No ..	No ..						
55.	U.S. Virgin Islands (VI)	No ..	No ..						
56.	Northern Mariana Islands (MP)	No ..	No ..						
57.	Canada (CN)	No ..	No ..						
58.	Aggregate other alien (OT)	X X X ..	X X X ..						
59.	Subtotal	X X X ..	X X X ..			(70,590)			
60.	Reporting entity contributions for Employee Benefit Plans	X X X ..	X X X ..						
61.	Total (Direct Business)	X X X ..	(a)..... 1			(70,590)			
DETAILS OF WRITE-INS									
5801.	.....	X X X ..	X X X ..						
5802.	.....	X X X ..	X X X ..						
5803.	.....	X X X ..	X X X ..						
5898.	Summary of remaining write-ins for Line 58 from overflow page	X X X ..	X X X ..						
5899.	TOTALS (Lines 5801 through 5803 plus 5898) (Line 58 above)	X X X ..	X X X ..						

(a) Insert the number of yes responses except for Canada and Other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER
MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART



OVERFLOW PAGE FOR WRITE-INS

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
2104.
2105.
2197. Summary of remaining write-ins for Line 21 (Lines 2104 through 2196)

STATEMENT OF REVENUE AND EXPENSES

	Current Year To Date		Prior Year To Date
	1 Uncovered	2 Total	3 Total
0604. Meharry Payments	X X X	(6,080,000)	(5,520,544)
0605. Essential Provider Payments (EPP)	X X X	(100,000,000)	(50,000,000)
0606.	X X X .....	.....	.....
0607.	X X X .....	.....	.....
0697. Summary of remaining write-ins for Line 6 (Lines 0604 through 0696)	X X X	(106,080,000)	(55,520,544)

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year
4704.
4797. Summary of remaining write-ins for Line 47 (Lines 4704 through 4796)

SCHEDULE A - PART 2
Showing all Real Estate ACQUIRED During the Current Quarter

1 Description of Property	Location		4	5	6	7	8	9
	2	3						
	City	State	Date Acquired	Name of Vendor	Actual Cost	Amount of Encumbrances	Book/Adjusted Carrying Value Less Encumbrances	Expended for Additions and Permanent Improvements
<div>NONE</div>								
9999999 Totals

SCHEDULE A - PART 3
Showing all Real Estate SOLD during the Quarter, including Payments during the Final Year on "Sales under Contract"

1 Description of Property	Location		4 Disposal Date	5 Name of Purchaser	6 Actual Cost	7	8	9 Expended for Additions, Permanent Improvements and Changes in Encumbrances	10 Book/Adjusted Carrying Value Less Encumbrances	11 Amounts Received	12 Foreign Exchange Profit (Loss) on Sale	13 Realized Profit (Loss) on Sale	14 Total Profit (Loss) on Sale	15 Gross Income Earned Less Interest Incurred on Encumbrances	16 Taxes, Repairs and Expenses Incurred
	2 City	3 State				Increase (Decrease) by Adjustment	Increase (Decrease) by Foreign Exchange Adjustment								
					N O N E										
9999999 Totals .....					.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

SCHEDULE B - PART 1

Showing all Mortgage Loans ACQUIRED during the Current Quarter

1	Location		4	5	6	7	8	9	10	11	12
	2	3									
Loan Number	City	State	Loan Type	Actual Cost	Date Acquired	Rate of Interest	Book Value/Recorded Investment Excluding Accrued Interest	Increase (Decrease) by Adjustment	Increase (Decrease) by Foreign Exchange Adjustment	Value of Land and Buildings	Date of Last Appraisal or Valuation
			NONE								
9999999 GRAND TOTAL .....					... X X X ..	... X X X ...					... X X X ...

SCHEDULE B - PART 2

Showing all Mortgage Loans SOLD, Transferred or Paid in Full During the Current Quarter

1	Location		4	5	6	7	8	9	10	11	12	13
	2	3										
Loan Number	City	State	Loan Type	Date Acquired								
NONE												
9999999 Totals

SCHEDULE BA - PART 1

Showing Other Long-Term Invested Assets ACQUIRED during the Current Quarter

1	2	Location		5	6	7	8	9	10	11	12	13	14	15	16
CUSIP Identification	Name or Description	3	4	Name of Vendor or General Partner	NAIC Designation	Date Originally Acquired	Type and Strategy	Actual Cost	Amount of Encumbrances	Book/Adjusted Carrying Value Less Encumbrances	Fair Value	Increase (Decrease) by Adjustment	Increase (Decrease) by Foreign Exchange Adjustment	Commitment for Additional Investment	Percentage of Ownership
3399999 Totals															... X X X ...

SCHEDULE BA - PART 2

Showing Other Long-Term Invested Assets SOLD, Transferred or Paid in Full During the Current Quarter

1	2	Location		5	6	7	8	9	10	11	12	13	14	15
CUSIP Identification	Name or Description	3	4	Name of Purchaser or Nature of Disposal	Date Originally Acquired	Book/Adjusted Carrying Value Less Encumbrances, Prior Year	Increase (Decrease) by Adjustment	Increase (Decrease) by Foreign Exchange Adjustment	Book/Adjusted Carrying Value Less Encumbrances on Disposal	Consideration Received	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Investment Income
NONE														
3399999 Totals

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10
CUSIP Identification	Description	Foreign	Date Acquired	Name of Vendor	Number of Shares of Stock	Actual Cost	Par Value	Paid for Accrued Interest and Dividends	NAIC Designation or Market Indicator (a)
Bonds - U.S. Governments									
31359MK93	FEDERAL NATL MTG ASSOC		04/01/2006	Vining Sparks	X X X	745,313	750,000.00		1
0399999 Subtotal - Bonds - U.S. Governments					X X X	745,313	750,000.00		X X X
6099997 Subtotal - Bonds - Part 3					X X X	745,313	750,000.00		X X X
6099998 Summary Item for Bonds Bought and Sold This Quarter					X X X	X X X	X X X	X X X	X X X
6099999 Subtotal - Bonds					X X X	745,313	750,000.00		X X X
6599998 Summary Item for Preferred Stock Bought and Sold This Quarter					X X X	X X X	X X X	X X X	X X X
7299998 Summary Item for Common Stock Bought and Sold This Quarter					X X X	X X X	X X X	X X X	X X X
7399999 Subtotal - Preferred and Common Stocks					X X X		X X X		X X X
7499999 Total - Bonds, Preferred and Common Stocks					X X X	745,313	X X X		X X X

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stocks Sold, Redeemed, or Otherwise Disposed of
by the Company During the Current Quarter

1	2	3 F o r e i g n	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description		Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
Bonds - U.S. Governments																					
31359MJX2	FEDERAL NATL MTG ASSOC		06/15/2006	MATURITY	... X X X ...	... 1,200,000 ...	... 1,200,000.00 ...	... 1,319,844 ...	... 1,218,356 ...				(18,356)	(18,356)	1,200,000				31,500	06/15/2006	1
0399999 Subtotal - Bonds - U.S. Governments					... X X X ...	... 1,200,000 ...	... 1,200,000.00 ...	... 1,319,844 ...	... 1,218,356 ...				(18,356)	(18,356)	1,200,000				31,500	X X X	X X X
6099997 Subtotal - Bonds - Part 4					... X X X ...	... 1,200,000 ...	... 1,200,000.00 ...	... 1,319,844 ...	... 1,218,356 ...				(18,356)	(18,356)	1,200,000				31,500	X X X	X X X
6099998 Summary Item for Bonds Bought and Sold This Quarter					... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...
6099999 Subtotal - Bonds					... X X X ...	... 1,200,000 ...	... 1,200,000.00 ...	... 1,319,844 ...	... 1,218,356 ...				(18,356)	(18,356)	1,200,000				31,500	X X X	X X X
6599998 Summary Item for Preferred Stock Bought and Sold This Quarter					... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...
7299998 Summary Item for Common Stock Bought and Sold This Quarter					... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...	... X X X ...
7399999 Subtotal - Preferred and Common Stocks					... X X X ...		... X X X ...												X X X	X X X	X X X
7499999 Total - Bonds, Preferred and Common Stocks					... X X X ...	... 1,200,000 ...	... X X X ...	... 1,319,844 ...	... 1,218,356 ...				(18,356)	(18,356)	1,200,000				31,500	X X X	X X X

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues

SCHEDULE DB - PART A - SECTION 1

Showing all Options, Caps, Floors and Insurance Futures Options Owned at Current Statement Date

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Description	Number of Contracts or Notional Amount	Date of Maturity, Expiry, or Settlement	Strike Price Rate or Index	Date of Acquisition	Exchange or Counterparty	Cost/ Option Premium	Book Value	*	Statement Value	Fair Value	Year to Date Increase/ (Decrease) by Adjustment	Used to Adjust Basis of Hedged Item	Other Investment/ Miscellaneous Income
NONE													
9999999 Total X X X	.....	.....	.....	.....	.....

SCHEDULE DB - PART B - SECTION 1

Showing all Options, Caps, Floors and Insurance Futures Options Written and In-Force at Current Statement Date

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Description	Number of Contracts or Notional Amount	Date of Maturity, Expiry, or Settlement	Strike Price Rate or Index	Date of Issuance/ Purchase	Exchange or Counterparty	Consideration Received	Book Value	*	Statement Value	Fair Value	Year to Date Increase/ (Decrease) by Adjustment	Used to Adjust Basis	Other Investment/ Miscellaneous Income
NONE													
9999999 Total X X X	.....	.....	.....	.....	.....

SCHEDULE DB - PART C - SECTION 1
Showing all Collar, Swap and Forwards Open at Current Statement Date

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Description	Notional Amount	Date of Maturity, Expiry, or Settlement	Strike Price Rate or Index Rec (Pay)	Date of Opening Position or Agreement	Exchange or Counterparty	Cost or (Consideration Received)	Book Value	*	Statement Value	Fair Value	Year to Date Increase/ (Decrease) by Adjustment	Used to Adjust Basis of Hedged Item	Other Investment/ Miscellaneous Income	Potential Exposure
<div>NONE</div>														
								. X X X						
9999999 Total

SCHEDULE DB - PART D - SECTION 1
Showing all Futures Contracts and Insurance Futures Contracts at Current Statement Date

1	2	3	4	5	6	7	8	9	Variation Margin Information			13
Description	Number of Contracts	Maturity Date	Original Value	Current Value	Variation Margin	Date of Opening Position	Exchange or Counterparty	Cash Deposit	10	11	12	Potential Exposure
9999999 Total X X X ..	..... X X X .....	.....	.....	.....	.....	.....

SCHEDULE E - PART 1 - CASH

Month End Depository Balances										
1			2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
							6	7	8	
Depository			Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	First Month	Second Month	Third Month	*
open depositories										
Regions Bank	2128 Gunbarrel Rd, Chattanooga, TN 37421			3.675	34,784		3,749,995	3,743,412	3,770,006	X X X
Regions Bank	2128 Gunbarrel Rd, Chattanooga, TN 37421			3.675	22,315		290,015	(307,446)	3,311,519	X X X
Regions Bank	2128 Gunbarrel Rd, Chattanooga, TN 37421			4.200	183,686		5,427,318	579,663	1,452,606	X X X
Regions Bank	2128 Gunbarrel Rd, Chattanooga, TN 37421			3.413	5,338		583,021	614,412	623,397	X X X
Regions Bank	2128 Gunbarrel Rd, Chattanooga, TN 37421			3.937	71,001		3,198,406	239,507	531,580	X X X
Regions Bank	2128 Gunbarrel Rd, Chattanooga, TN 37421						7,329	18,032	13,915	X X X
Regions Bank	2128 Gunbarrel Rd, Chattanooga, TN 37421									X X X
0199998 Deposits in			depositories that do not exceed the allowable limit in any one depository (See Instructions) - open depositories			X X X	X X X			X X X
0199999 Totals - Open Depositories			X X X	X X X	317,124		13,256,084	4,887,580	9,703,023	X X X
0299998 Deposits in			depositories that do not exceed the allowable limit in any one depository (See Instructions) - suspended depositories			X X X	X X X			X X X
0299999 Totals - Suspended Depositories			X X X	X X X						X X X
0399999 Total Cash On Deposit			X X X	X X X	317,124		13,256,084	4,887,580	9,703,023	X X X
0499999 Cash in Company's Office			X X X	X X X	X X X	X X X				X X X
0599999 Total Cash			X X X	X X X	317,124		13,256,084	4,887,580	9,703,023	X X X

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1	2	3	4	5	6	7	8	9
CUSIP Identification	Description	Code	Date Acquired	Rate of Interest	Maturity Date	Book/Adjusted Carrying Value	Amount of Interest Due & Accrued	Gross Investment Income
<div>NONE</div>								
0199999 Total Cash Equivalents

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EXHIBIT 2 - ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID

1	2	3	4	5	6	7
Name of Debtor	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days	Nonadmitted	Admitted
			NONE			
0599999 Accident and health premiums due and unpaid (Page 2, Line 13)						

EXHIBIT 3 - HEALTH CARE RECEIVABLES

1	2	3	4	5	6	7
Name of Debtor	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days	Nonadmitted	Admitted
		NONE				
0799999 Gross health care receivables

EXHIBIT 5 - AMOUNTS DUE FROM PARENT, SUBSIDIARIES AND AFFILIATES

1 Name of Affiliate	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 Over 90 Days	6 Nonadmitted	Admitted	
						7 Current	8 Non-Current
Individually listed receivables							
	NONE						
0199999 Total - individually listed receivables							
0299999 Receivables not individually listed							
0399999 Total gross amounts receivable							

EXHIBIT 6 - AMOUNTS DUE TO PARENT, SUBSIDIARIES AND AFFILIATES

Affiliate	2 Description	3 Amount		
			4 Current	5 Non-Current
BlueCross BlueShield of Tennessee	ITS claims, bonus accrual and miscellaneous	6,243,649	4,356,864	1,886,785
0199999 Total - Individually listed payables	.....XXX.....	6,243,649	4,356,864	1,886,785
0299999 Payables not individually listed	.....XXX.....	.....	.....	.....
0399999 Total gross payables	.....XXX.....	6,243,649	4,356,864	1,886,785